

SACRAMENTO OFFICE
STATE CAPITOL, ROOM 205
SACRAMENTO, CA 95814
TEL (916) 445-6577
FAX (916) 327-1997

DISTRICT OFFICE
515 CLAY STREET, SUITE 2202
OAKLAND, CA 94612
TEL (510) 286-1333
FAX (510) 286-3885

California State Senate

RULES
CHAIRMAN

SENATOR DON PERATA PRESIDENT PRO TEMPORE

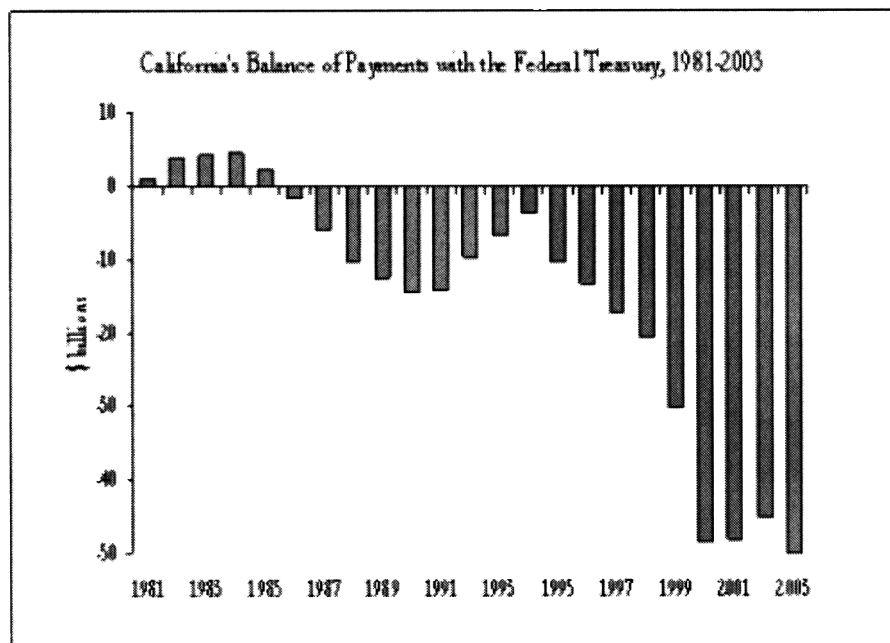


February 16, 2005

The Honorable Arnold Schwarzenegger, Governor
State of California
First Floor, State Capitol
Sacramento, CA 95814

Dear Governor Schwarzenegger:

As we prepare to leave for Washington, D.C. on Wednesday, I want to highlight for you some of my concerns about the state's balance of payments with the federal government. As you know, in recent years the state has become a "donor state" because it pays more in taxes than it receives in federal expenditures. By some estimates, the state loses about \$50 billion a year.



The California Institute reviewed our balance of payments for each year between 1981 and 2003. Its estimates, as displayed in the figure above,



indicate that in each year between 2000 and 2003 the state ran a deficit with the federal government of at least \$40 billion. In three of the last four years, the annual deficit hovered around \$50 billion, the greatest deficit amount in our history. As you yourself have often stated -- and pledged to achieve -- California can do better.

With your unique relationship with a President you helped elect and control of Congress in the hands of GOP leaders with whom you have close ties, never has a California Governor had the opportunity that you do to bring California monies due us from the federal government.

Clearly, as your budget already assumes, you are expecting there will be a federal Medicaid waiver to keep California from taking an additional \$1 billion hit in the President's budget. That's a good start, but there is much more to be done.

I want to highlight for your consideration the following major programs, which I call "California's Fair Share: The Ten Percent Solution." If you are able to win support for increasing federal funding in just these programs alone, California would reduce the balance of payments deficit by about ten percent or \$5 billion.

EDUCATION

No Child Left Behind. The federal No Child Left Behind Act placed significant new assessment and accountability requirements upon states. The National Conference of State Legislatures estimates that the federal government owes states \$10 billion in 2005 for the costs associated with No Child Left Behind. California's share appears to be at least **\$1.2 billion**.

Individuals with Disabilities Education Act. Under state and federal law, individuals with exceptional needs are entitled to a free, appropriate public education. The federal law, known as the Individuals with Disabilities Education Act (IDEA), authorizes federal formula grants to states for special education services to students with disabilities. As originally enacted in 1975, the federal government intended to appropriate 40 percent of the average per-pupil expenditures for special education. Your budget assumes the state will receive about \$1.2 billion in federal funding for IDEA. However, if the federal government were to provide its full 40 percent share, the state would receive about **\$1.5 billion** more in federal funds.

PUBLIC SAFETY

State Criminal Alien Assistance Program (SCAAP). This program provides federal assistance to states and units of local government incurring costs for incarcerating undocumented persons convicted of one felony or two misdemeanor offenses. For 2005-06, your budget requests about \$730 million for the incarceration of undocumented persons. This estimate includes the related debt service associated with incarcerating undocumented felons. Your administration expects to receive less than \$79 million (about 11 percent) from SCAAP. The President's proposal does not include any funding for this program, leaving a gap you can help close.

Community Oriented Policing Services (COPS) provided grants to local law enforcement agencies in past budgets. For 2006, however, the president would eliminate funding for the program, thereby reducing local funds by perhaps **\$100 million**.

HEALTH AND HUMAN SERVICES

Selective Provider Contracting Waiver. Under the state Medi-Cal program, California contracts with hospitals for certain services. Under a waiver from the federal Medicaid law, the state receives federal matching funds for the cost of the services. The Bush administration is considering whether to renew the waiver. If the federal government does not renew this waiver, California could lose **hundreds of millions of dollars** in federal matching payments. Continuation of the federal waiver will ensure that California does not lose any of the funds we currently receive for these vital services.

Child Care and Development Block Grant (CCDBG) consists of two separate allocations known as "mandatory funds" and "matching funds." California receives 6.93 percent of the mandatory funds. If the mandatory funds were distributed on a per-capita basis, California's share of the federal revenue would nearly double.

TRANSPORTATION

Goods Movement. California is the "doorway" to the rest of the nation for goods imports and exports. The latest annual report by the California Transportation Commission reports that \$400 billion worth of trade went through California's ports, with nearly 80 percent originating in, or destined for, other states. The federal government levies fees on goods shipped through the nation's ports, but distributes the fee revenue unevenly. New York's ports receive twice as much of the revenue as do California's ports. *If California*

*received the fee revenue on the same basis as New York, we would receive an additional **\$100 million** in annual revenues.*

40 percent of the containers entering the nation come through the ports of Los Angeles and Long Beach. Pending federal legislation would also allocate \$24.5 billion to improve dedicated freight mobility. If California received 40 percent of the amount in the bill, the state would receive an additional \$9.8 billion over the next six years.

Amtrak. California has invested \$1.7 billion in intercity rail capital improvements in recent years. However, during the same period the federal government directed the bulk of Amtrak appropriations to the Northeast Corridor. Any congressional investments in passenger rail should recognize the state's investments and, therefore, increase our share of federal support. For 2006, the President's budget does not propose any funding for California.

WATER

CALFED. The CALFED program is a joint state/federal program to coordinate water management in the Bay Delta. Over the next ten years, the state expects to spend about \$2.4 billion on CALFED. It expects the federal government to provide \$1.7 billion over the next ten years – about **\$170 million** per year, which your efforts can help assure.

I look forward to the trip to Washington, and working with you as you pursue your promise to improve California's balance of payments.

Sincerely,

A handwritten signature in black ink, appearing to be "Don Perata", with a large, stylized initial "D" and a horizontal line extending to the right.

Senator Don Perata
President Pro Tempore

DP:JD:dc